

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

This Chapter describes items in the Budget that are statewide issues or related to various departments.

CANNABIS TAX FUND ALLOCATIONS

The Medical Marijuana Regulation and Safety Act enacted in 2015 created a regulatory framework for medical cannabis in California, and distributed the responsibility for state licensing between three state entities—the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health. In November 2016, voters approved Proposition 64, the Adult-Use of Marijuana Act, which legalized the recreational sale and use of cannabis to people over the age of 21 and levied new excise taxes on the cultivation and retail sale of all state-regulated cannabis. Chapter 27, Statutes of 2017 (SB 94), integrated medicinal and adult-use regulations to create the Medicinal and Adult-Use Cannabis Regulation and Safety Act, establishing a single regulatory system to govern the commercial cannabis industry in California.

As approved in Proposition 64, effective January 1, 2018, excise taxes are levied on the cultivation and retail sale of both adult-use and medicinal cannabis with tax revenues being deposited into the Cannabis Tax Fund. The cannabis excise tax is forecast to generate \$288 million in 2018-19 and \$359 million in 2019-20, a reduction of \$67 million

and \$156 million, respectively, from the Governor's Budget forecast. The forecast assumes continued growth of more than 15 percent annually as new businesses continue to enter the marketplace and local jurisdictions adjust to the state's legal framework. It is important to note that for the near term, revenue estimates will be subject to significant uncertainty because the market has only recently been established.

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis, and the past effects of its criminalization. Once those priorities have been met, the remaining funds are allocated to youth education, prevention, early intervention, and treatment; environmental restoration; and public-safety related activities. The May Revision estimates \$198.8 million will be available for these purposes, and allocates them for the first time in 2019-20 as identified below.

Education, prevention, and treatment of youth substance use disorders and school retention—60 percent (\$119.3 million):

- \$12 million to the Department of Public Health for cannabis surveillance and education activities.
- Remaining 75 percent (\$80.5 million) to the Department of Education to subsidize child care for school-aged children of income-eligible families to keep these children occupied and engaged in a safe environment, thus discouraging potential use of cannabis.
- Remaining 20 percent (\$21.5 million) to the Department of Health Care Services for competitive grants to develop and implement new youth programs in the areas of education, prevention and treatment of substance use disorders along with preventing harm from substance use.
- Remaining 5 percent (\$5.3 million) to California Natural Resources Agency to support youth community access grants. These grants will fund programs to support youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities. This includes but is not limited to community education and recreational amenities to support youth substance use prevention and early intervention efforts.

Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20 percent (\$39.8 million):

- Sixty percent (\$23.9 million) to the Department of Fish and Wildlife, of which \$13.8 million will support clean-up, remediation, and restoration of damage in watersheds affected by illegal cannabis cultivation and \$10.1 million to support enforcement activities aimed at preventing further environmental degradation of public lands.
- Forty percent (\$15.9 million) to the Department of Parks and Recreation, of which \$7.1 million will be used to survey the impacts and identify unknown areas of cannabis cultivation to assist with prioritizing resources for effective enforcement, \$5.6 million for remediation and restoration of illegal cultivation activities on state park land, and \$3.2 million to make roads and trails accessible for peace officer patrol and program assessment and development.

Public safety-related activities—20 percent (\$39.8 million):

- \$2.6 million to the California Highway Patrol for training, research, and policy development related to impaired driving and for administrative support.
- Remaining 30 percent (\$11.2 million) to the California Highway Patrol's impaired driving and traffic safety grant program for non-profits and local governments authorized in Proposition 64.
- Remaining 70 percent (\$26.0 million) to the Board of State and Community Corrections for a competitive grant program for local governments that have not banned cannabis cultivation or retail activities that will prioritize various public health and safety programs, including, but not limited to, local partnerships focused on prevention and intervention programs for youth and to support collaborative enforcement efforts aimed at combating illegal cannabis cultivation and sales.

The dollar amounts above are subject to change and will be affected by actual cannabis tax receipts for the final two quarters of 2018-19.

The May Revision also includes \$15 million Cannabis Tax Fund to provide grants to local governments to assist in the creation and administration of equity programs, and to support equitable access to the regulated market for individuals through financial and technical assistance. The Governor's Office of Business and Economic Development will administer the grant program on behalf of the Bureau of Cannabis Control.

The May Revision includes statutory language to address technical, clean-up issues related to the California Cannabis Appeals Panel statute, streamline provisional licenses, enhance the equity grant program established in Chapter 794, Statutes of 2018 (SB 1294), strengthen administrative penalties for unlicensed cannabis activity, and extend the existing CEQA exemption.

FARM ANIMAL CONFINEMENT (PROPOSITION 12)

On November 6, 2018, California voters approved Proposition 12, which expanded current animal housing requirements and established new, more stringent minimum space standards on housing for calves raised for veal, breeding pigs and egg-laying hens. These requirements will be implemented through a phased approach over the next three years. The ballot measure also makes it illegal for businesses in California to knowingly sell eggs or uncooked pork or veal that came from animals housed in a manner that does not comply with the new confinement requirements, including products from animals raised and maintained at facilities located in California and out-of-state.

Proposition 12 mandates enforcement of its provisions by the California Department of Food and Agriculture (CDFA) and the California Department of Public Health.

The May Revision includes \$4.5 million General Fund and 14 positions to perform the initial first-year program development and implementation activities associated with enforcing the new Proposition 12 mandates. CDFA is currently in the process of developing regulations to further define its role in meeting the requirements of Proposition 12 and a future comprehensive proposal is anticipated once regulations are complete and the ongoing workload needs are identified.

COUNTY VOTING SYSTEMS

The 2018 Budget Act provided one-time funding of \$134 million General Fund for the replacement of voting systems and technology in all 58 counties. The funding provided reimbursement to counties by matching county funds spent on voting system replacement activities on a dollar-for-dollar basis, up to the maximum amount of funds allocated for this purpose.

To support counties in their effort to replace voting systems and strengthen the security of California's election infrastructure, the May Revision includes an additional one-time General Fund investment of \$87.3 million to replace and upgrade county voting

systems. This will provide an additional 25 percent of the estimated vote center model costs for counties with over 50 precincts (\$65.7 million), which brings the state's investment to 75 percent of total estimated costs; full funding of the estimated polling place model costs for counties with 50 or fewer precincts (\$3.6 million); and \$18 million for county election management system replacements.

CALIFORNIA ARTS COUNCIL

The California Arts Council's mission is advancing California through the arts and creativity. The Council administers grants to support the state's arts and cultural communities through the development of partnerships with the public and private sectors to enhance the cultural, educational, social, and economic growth of California. The grant programs support arts education in school and community settings; system-engaged youth; recently incarcerated individuals; local and community economic development; recent immigrants and refugee communities; native communities; veterans and their families; and various arts service organizations, and are designed to serve populations and communities who are underrepresented in the arts and have reduced access to arts programs. The Governor's Budget included \$10 million ongoing General Fund to expand grant programs that offer support for public access to the arts, arts education, and the state's cultural infrastructure.

The May Revision includes \$5 million one-time General Fund to the Arts Council for the Los Angeles Museum of the Holocaust. The museum is the oldest survivor-founded museum in the United States and houses a large collection of artifacts donated by Holocaust survivors. The museum is expanding in Pan Pacific Park and the \$5 million will assist with this effort.

The May Revision also includes \$5 million one-time General Fund to the Arts Council for the Armenian American Museum. The Armenian American Museum and Cultural Center of California is a developing project that will be located in Glendale, California. The Museum's mission is to promote understanding and appreciation of America's ethnic and cultural diversity by sharing the Armenian American experience. The Governor's Budget included \$1 million one-time General Fund to the Natural Resources Agency for the Armenian American Museum, which is being transferred to the Arts Council in the May Revision. Including the additional investment in the May Revision, the state has provided \$8 million since 2016 for the Armenian American Museum.

FAIRVIEW DEVELOPMENTAL CENTER

The May Revision includes one-time \$2.2 million General Fund to complete a site evaluation of disposition options for the Fairview Developmental Center.

The Department of Developmental Services anticipates it will continue serving clients at the Fairview facility through the end of 2019. To facilitate the timely disposition of the property after the Department of Developmental Services ceases operation of the facility, the Department of General Services will hire a consultant to assist with the evaluation of appropriate reuse options. In January, the Governor issued Executive Order N-06-19, which directed state departments to prioritize development of housing on excess state properties, working in partnership with local government. Accordingly, the Fairview evaluation will include identifying constraints and opportunities, working with the City of Costa Mesa and Orange County to identify local stakeholder interest in the reuse of the property, particularly related to meeting housing and homelessness needs, and identifying options that will generate the greatest benefit to the state. Concurrently, the Department of General Services will explore options to immediately enter into a long-term lease with a local jurisdiction to provide housing and supportive services for up to 200 individuals with cognitive disabilities who are currently homeless.

STATE RETIREMENT CONTRIBUTIONS

The May Revision includes the following adjustments for retirement contributions:

- State contributions to the California Public Employees' Retirement System (CalPERS) have increased by a net total of \$3.5 million (\$8.8 million General Fund increase and a \$5.3 million Other Fund decrease) relative to the Governor's Budget. The increase is a result of CalPERS' adjustment to the state's contribution rates, which is due primarily to the normal progression of the existing amortization and smoothing policy, a reduction in the discount rate from 7.25 percent to 7.00 percent, and increases in payroll.
- State contributions to the California State Teachers' Retirement System (CalSTRS) increased by \$5.6 million General Fund, relative to the Governor's Budget, due to a revision in reported compensation for K-12 and community college teachers.
- Relative to the Governor's Budget, state contributions to the Judges' Retirement System (JRS) I increased by \$5.7 million General Fund, and state contributions to JRS II increased by \$6.4 million General Fund. These increases are attributed to an

increase in the JRS II employer contribution rate, changes in the number of JRS I and II active and retired members, and an increase in member salaries.

The State Retirement and Health Care Contributions figure provides an historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), JRS II, and the Legislators' Retirement System (LRS) for pension and health care benefits.

State Retirement and Health Care Contributions ^{1/ 2/}

(Dollars in Millions)

	CalPERS ^{3/}	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental ^{4/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{5/}
2008-09	\$3,063		\$1,133	\$189	\$40		\$2,146	\$1,183		
2009-10	2,861		1,191	184	32		2,120	1,182		\$3
2010-11	3,230		1,200	166	54		2,277	1,387		2
2011-12	3,174		1,259	195	58		2,439	1,505		0
2012-13	2,948 ^{6/}	\$449 ^{6/}	1,303	160	51		2,567	1,365 ^{6/}	\$222 ^{6/}	0
2013-14	3,269	474	1,360	188	52	\$1	2,697	1,383	225	22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 ^{8/}
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	79	1	3,329	1,784	311	394
2019-20 ^{7/}	6,036	723	3,323	222	85	1	3,495	1,895	331	577

^{1/} The chart does not include contributions for University of California pension or retiree health care costs, and does not reflect the \$6 billion supplemental pension payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84).

^{2/} The 2019-20 Governor's Budget proposes multiple supplemental pension payments to CalPERS and CalSTRS, which are not reflected in the chart. The first proposal is a \$3 billion General Fund supplemental pension payment to CalPERS in 2018-19. The second proposal is a \$2.9 billion supplemental pension payment to CalSTRS over the next four fiscal years (\$1.1 billion in 2019-20), on the state's behalf, using estimated available Proposition 2 debt repayment funding. The third proposal is a \$3 billion General Fund supplemental pension payment to CalSTRS in 2018-19, on behalf of CalSTRS employers. Note that this third proposed payment was increased at the 2019-20 May Revision to \$3.15 billion General Fund.

^{3/} In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in this column reflect statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

^{4/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and California State University (CSU).

^{5/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{6/} Beginning in 2012-13, CSU pension and health care costs are displayed separately.

^{7/} Estimated as of the 2019-20 May Revision. 2019-20 General Fund costs are estimated to be \$3,179 million for CalPERS, \$723 million for CSU CalPERS, \$1,642 million for Active Health and Dental, \$2,222 million for Retiree Health & Dental (including CSU), and \$289 million for OPEB Prefunding. The remaining totals are all General Fund.

^{8/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The May Revision decreases employee compensation by \$1.8 million to reflect updated estimates to the dental and vision premium rates, natural changes to enrollment in health and dental plans, and updated employment information for salary increases and other post-employment benefit contributions.

In addition, the Administration will continue collective bargaining negotiations with Highway Patrol Officers, whose contract expired early July 2018, and will begin or continue collective bargaining negotiations with the additional five bargaining units, representing Attorney's and Administrative Law Judges, Correctional Officers, Public Safety, Stationary Engineers, and Psychiatric Technicians, whose contracts will expire in late June or early July 2019.

STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2019-20 limit is estimated to be \$112.1 billion. The revised limit is the result of applying the growth factor of 4.18 percent to the prior year limit. The revised 2019-20 limit is \$1.5 billion below the \$113.6 billion estimated in January. This decrease is primarily due to changes in the following factors:

- Per Capita Personal Income
 - January Percentage Growth: 5.07%
 - May Revision Percentage Growth: 3.85%
- State Civilian Population
 - January Percentage Growth: 0.75%
 - May Revision Percentage Growth: 0.55%
- K-14 Average Daily Attendance
 - January Percentage Growth: -0.05%
 - May Revision Percentage Growth: -0.07%